Docket No. 3635-4000

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Applicant(s): Stephen J. HODGDON et al.

Group Art Unit: 3624

Serial No.: 09/259,770

Examiner: Jagdish PATEL

Filed: February 26, 1999

For: METHOD OF RISK MANAGEMENT AND OF ACHIEVING A RECOMMENDED ASSET ALLOCATION AND WITHDRAWAL STRATEGY, AND COMPUTER-READABLE MEDIUM, APPARATUS AND COMPUTER PROGRAM THEREOF

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Alexandria, VA 22313-1450

DECLARATION OF STEPHEN J. HODGDON AND CHARLES W. KADLEC PURSUANT TO 37 C.F.R. §1.131

Sir:

We, the co-inventors of the above-identified patent application, declare that:

1. The above-identified application, filed February 26, 1999, claims a Method Of Risk Management And Of Achieving A Recommended Asset Allocation And Withdrawal Strategy, and Computer-Readable Medium, Apparatus and Computer Program Thereof.

2. Exhibit 1 is a true and complete copy of Charles W. Kadlec, "Seligman: Helping You Help Your Clients Harvest a Lifetime of Savings," FINANCIAL PLANNING (Supplement on Fee-Based Planning: The Complete Guide), Vol. 28, (8):32-33 (Aug. 1998) (hereinafter the "1998 Kadlec article"). The 1998 Kadlec article was submitted and accepted for

publication prior to August 1998.

3. Charles Kadlec is the author of the 1998 Kadlec article. The article describes, *inter alia*, withdrawal amounts composed of "fixed-dollar withdrawals" and "fixed-percentage withdrawals." The information described in the article embodies our joint conception. We (Messrs. Hodgdon and Kadlec) were in possession of the information disclosed in the 1998 Kadlec article prior to its submission for publication, and prior to its publication in August 1998.

4. We hereby declare that all statements made herein of our own knowledge are true and correct and that all statements made on information and belief are believed to be true and further, that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the United States code, under penalty of perjury under the laws of the United States of America and that such willful false statements may jeopardize the validity of the application or any patent issued thereon.

Date: ~~October~~ Nov 18, 2004

Stephen J. Hodgdon

Date: ~~October~~ Nov. 18, 2004

Charles W. Kadlec

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A Supplement To:
Financial PLANNING

FEE-BASED PLANNING: THE COMPLETE GUIDE

Focusing on building stronger client relationships, industry experts feature an in-depth look at products and services to help a fee-based practice grow.

Strategic Planning

Welcome to *Financial Planning's* annual *Fee-Based Guide*. We are living at a [illegible] financial services across the board are enjoying pro[illegible] the bull market continues its upward climb. Though th[illegible] its share of volatility, investor sentiment [illegible]. While the U.S. economy continues to grow, [illegible] no significant signs to indicate a dramatic slow down [illegible].

In an environment [illegible] many financial professionals are doing well, it is [illegible] which among them will continue to succeed over the long [illegible]. As the downward trend on commission prices continues, planners [illegible] to look for alternative means to generate revenue [illegible] fee-based services, planners have implemented [illegible] secure their financial futures.

Establishing a fee-based practice has many benefits. Making the move into fee [illegible] a firm's value. The continuity of a steady income [illegible] planners the opportunity to allocate their resources in advance. It can also help to relieve the stress often experienced in a transaction-based environment. Sophisticated advisory techniques offer clients a heightened level of attention through which long-term relationships emerge. Working toward a common goal, clients and advisors now find themselves on the same side of the table building the wealth of their accounts.

The *Fee-Based Guide* is intended to provide a forum in which industry experts [illegible] ideas for building a more productive financial [illegible]. We welcome any suggestions for improvement in our [illegible] to offer the financial planning community the best resources to help planners continue on the road to prosperity.

Tonia Caldwell

Tonia Caldwell
Publisher

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PUBLISHER
Tonia Caldwell

SPECIAL PROJECTS EDITOR
Patricia Murphy (212) 765-5311, ext. 265

ART DIRECTORS
Melissa Dailey
Bruce Monroe
Lori Hymowitz

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Janet Rogers

ADVERTISING DIRECTOR
Jill Rapp (212) 765-5311, ext. 392

ADVERTISING SALES MANAGER: SOUTHEAST REGION
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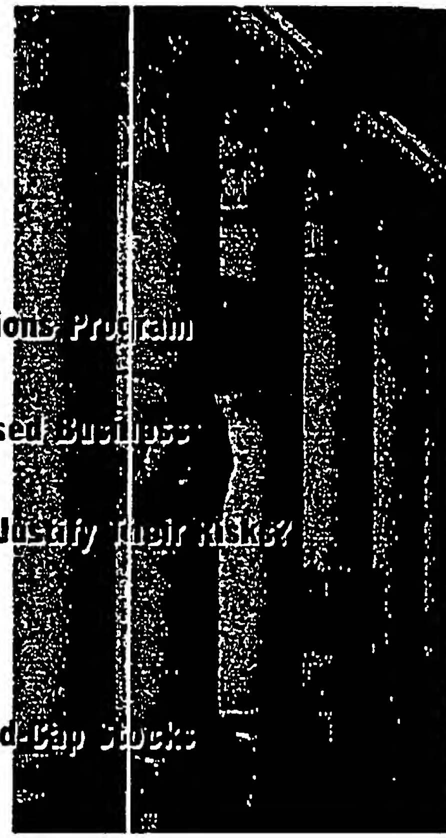

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Seligman: Helping You Help Your Clients Harvest a Lifetime of Savings

By Charles W. Kadlec, Managing Director

"Scratch the surface of someone who has just retired and you find cold fear." A financial advisor told me that once, and it's as true today as it was then. One of the most important things you can provide your clients is peace of mind. And, while each of your clients can benefit from your expertise, some of your best clients—soon-to-be or current retirees—are in a truly unique situation. People age 55 and older control more than half of the nation's wealth. They are preparing to "harvest" income from the assets they've accumulated over the course of their working life. However, their need for a financial plan hasn't ended along with their morning commute. The need is *more* crucial in retirement, because mistakes at this stage are hard to re-coup. You've helped them build their nest egg; now you need to help them maintain it and tap into it—prudently.

At Seligman, we've created a new strategy designed to assist you in advising your retired clients in structuring their portfolios and their withdrawal plans. The goal: to avoid the premature depletion of the nest egg they've worked so hard to build. I'd like to discuss each of the five steps Seligman has developed to help you guide your clients toward that goal.

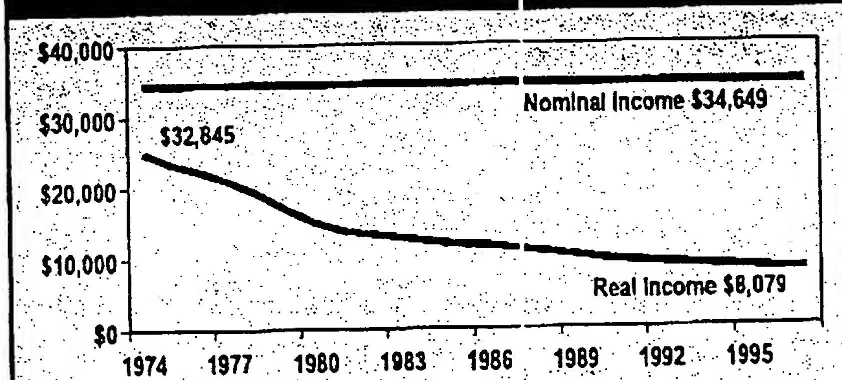
Step One: Help your clients prioritize their expenses.

All income is not the same. There are "needs"—food, the mortgage, health insurance—the fixed bills paid on a fairly standard schedule. Then, there are "wants"—weekend trips, nights out at the theater, a new car. Sure, your clients deserve the lifestyle they have saved and invested to achieve, but, if necessary, these expenditures could be postponed. This is an important distinction: bills that must be paid—month in and month out—versus bills incurred from time to time. These types of expenses are not the same, and your clients shouldn't draw on their savings as if they were. **Fixed expenses or needs should be met with fixed-*dollar* withdrawals, while the more flexible wants should be met with fixed-*percentage* withdrawals.** Why? In a nutshell, retirees who pay for *all* of their expenses with a fixed-dollar withdrawal plan increase the risk of depleting their nest eggs prematurely if the market endures a series of consecutive declines. Remember, a fixed-dollar amount represents a larger percentage of a client's portfolio in a down market. Using fixed-percentage withdrawals to cover the "wants" is a smart way to adjust your clients' spending habits to keep their expenses in line with the value of their accounts.

interest rates rise, account values can fall (as the prices of bonds held decrease). Holders of short-term, fixed-income securities face the prospect of an erratic income stream. And, should interest rates decline, as these investments mature, investors are forced to buy back into the market at the new lower interest rates offered. **The strategy here: Acknowledge the need for fixed-income securities in your clients' portfolios, but also point out the limitations of these securities and use diversification to offset these risks.**

Risk: Loss of Buying Power

Income Generated from a $500,000 Investment in 30-Year US Government Bonds 1970-1997



Source: Ibbotson Associates. Past performance is no indication of future results. Bonds offer a fixed rate of return and principal value.

Step Two: Understand the shortcomings of fixed-income securities and adjust your clients' portfolios accordingly.

Income is a definite need of retirees and fixed-income securities can be a critical component of their portfolios. However, there are some definite drawbacks to these types of securities: inflation for one. Prices are not stagnant. Income shouldn't be either. Long-term, fixed-income securities "lock" investors into a fixed-income stream. However, inflation can erode the purchasing power of this income. The result: a lower standard of living. Another risk: should

Step Three: Include stocks in your clients' strategies.

Growth of capital is a source of higher future income and makes possible a stable, if not higher, standard of living. In addition, stocks paying reliable dividends provide a dual function: investors participate in the growth potential of equities, and earn additional income to help keep ahead of inflation. Yield and growth of income are important criteria when selecting a growth and income fund for harvesters. Dividend income helps meet their fixed-dollar needs. And growth in the account is essential to a growing stream

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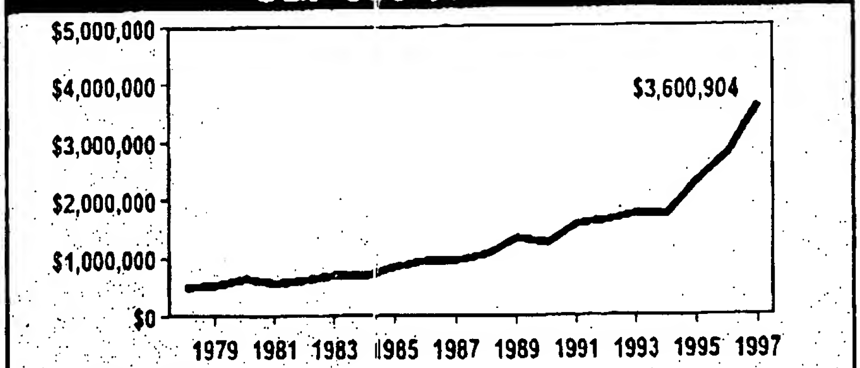
Hypothetical Investment: S&P 500 1978-1997



Source: TowersData.
An investor cannot invest directly in an unmanaged index such as the S&P 500. Past performance is no indication of future results.

of income. Of course, while there is no guarantee that stocks will outperform in the future, historically, equities have provided investors with strong returns over the long term.

Step Four: Diversify your clients' portfolios to include international equity exposure.

Many retirees consider international stocks too risky. And, if they are referring to a portfolio consisting of *only* foreign stocks, they'd be right. However, your clients should make foreign stocks a *part* of their portfolio, because diversification may increase returns and reduce risk. By neglecting to invest overseas, your clients are limiting their access to many of the world's top companies. More importantly, the international equity markets can provide your clients with an important buffer during times of domestic market weakness.

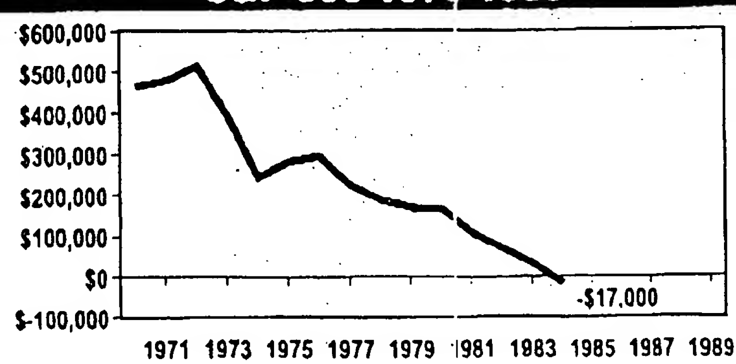
Step Five: Don't allow your clients to overestimate their resources.

Relying on average rates of return when assessing investment decisions can prove costly. This can be particularly dangerous given the stellar equity market performance of the past 20 years. Let me show you what I mean. A hypothetical investor put $500,000 in the S&P 500 20 years ago, withdrawing $50,000 each year, and had an ending balance of $3.6 million *(see chart above)*. But, this period was the *best* 20-year period since 1950 for the S&P 500. By selecting a different starting year, however, the results are quite different. A second hypothetical investor starts out in 1970, withdrawing the same $50,000 annually during one of the *worst* 20-year periods for making fixed withdrawals *(see chart below)*. Not pretty, is it? Fourteen years into retirement and our investor is out of money. **While the "average" performance of the market over a given time period might be impressive, fluctuations in year-to-year returns can do a lot of damage, especially for investors taking fixed withdrawals from their account.** Although clients taking a fixed-dollar amount continue to receive the same income, in a down-market year, that dollar amount represents a greater portion of the total account than it would in an up-market year. Fixed-dollar withdrawals are the opposite of dollar-cost averaging. They accentuate downside volatility by depleting capital.

Retirees must formulate a strategy to ensure that their financial resources support their needs. In this ongoing process, their best resource is you, the financial advisor. When working with your retired, or soon-to-be-retired clients, the challenge is to help them construct a "core" portfolio of holdings to support today's needs *and* tomorrow's. Clearly, this portfolio should include: *Income*—to help maintain their lifestyle in retirement; *Equity*—to help their portfolio continue to grow and generate income that keeps pace with inflation; and *International Diversification*—to help provide protection against down US markets, while offering the potential for growth. At Seligman, we believe large-cap equities can play an integral role as the foundation of a harvesting portfolio. In particular, Seligman offers a "Large-Cap Core Solution" that can help your clients support their retirement lifestyle, through investments in Seligman Common Stock Fund (which seeks growth of capital and income), Seligman Large-Cap Value Fund (which seeks growth of capital), and Seligman Henderson International Fund (for foreign diversification).

We are here to help you provide your clients with a clear understanding of the strategies needed to best optimize their assets. Call your Seligman Sales Professional, or Seligman Financial Services at 800-221-2783 for assistance in meeting the investment goals of your best, and most important, clients and to request our Harvester Brochure and Large-Cap Core Solution brochures.

Hypothetical Investment: S&P 500 1970-1989



Source: TowersData.
An investor cannot invest directly in an unmanaged index such as the S&P 500. Past performance is no indication of future results.

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